



**GENERAL ASSEMBLY OF NORTH CAROLINA**

**Session 2017**

**Legislative Retirement Note**

**BILL NUMBER:** House Bill 183 (First Edition)

**SHORT TITLE:** Retirement Admin. Changes Act of 2017.-AB

**SPONSOR(S):** Representatives Collins, Ross, and McNeill

---

**FUNDS AFFECTED:** State General Fund, State Highway Fund, other State employer receipts; local government funds

**SYSTEM OR PROGRAM AFFECTED:** Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS), Local Governmental Employees' Retirement System (LGERS), Disability Income Plan (DIP), Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF), Retiree Health Benefit Fund (RHBF), Death Benefit Plans (DBP), and the NC Deferred Compensation Plan (NC 457).

**BILL SUMMARY:**

Section 1: Amends statutes governing the FRSWPF, TSERS, and LGERS to improve the Retirement Systems Division's ability to collect repayment of overpaid benefits.

Section 2: Amends various sections of G.S. 135 and G.S. 128 to put the current funding policies of TSERS and LGERS into the statutes. This section also modifies provisions related to funds for retiree health, disability income, and death benefits to incorporate trust language from the Governmental Accounting Standards Board (GASB).

Section 3: Allows members of several Systems to elect beneficiaries on-line, rather than by paper form, regardless of the amount of service they have. Currently beneficiaries cannot be elected online if the member has 10 or more years of service.

Section 4: Clarifies that TSERS is a multi-employer plan for reporting purposes under GASB.

Section 5: Creates a fund under the control of the Boards of Trustees of TSERS and LGERS that can be used to pay for the cost of implementing any legislated benefit changes that will result in future reductions in contributions. The maximum amount that can be directed into the fund is 0.01% of compensation.

Section 6: Affects Department of State Treasurer operations unrelated to the Retirement Systems, so is not addressed in this note.

Section 7: Allows public employers to make additional contributions to deferred compensation accounts of employees.

Section 8: Clarifies that actuarial factors selected by the Boards of Trustees of TSERS and LGERS are exempt from the rule-making requirements of the Administrative Procedure Act. It also amends G.S. 135-6(n) and G.S. 128-28(o) to include the contribution-based benefit cap factors in the actuarial factors adopted by the Boards.

Section 9: Affects Department of State Treasurer operations unrelated to the Retirement Systems, so is not addressed in this note.

Section 10: Standardizes employer reporting of sick leave for members of TSERS and LGERS.

**EFFECTIVE DATE:** Sections 2 and 4 of this act are effective June 30, 2017. Sections 3 and 10 are effective January 1, 2018. Sections 5 and 9 are effective October 1, 2017. The remainder of the bill is effective when it becomes law.

**ESTIMATED IMPACT ON STATE:**

Both Conduent, the actuary for the Retirement Systems, and Hartman & Associates, the actuary for the General Assembly, estimate that the bill will have no near-term material impact on the contribution rates or liabilities of any of the systems affected.

Conduent notes with regard to Sections 1, 3, and 5 that these measures could possibly result in more contributions or lower administrative costs for the Retirement System, which would be a positive outcome for the Retirement System. That being said, within the actuarial framework, they are unable to quantify the actuarial impact based on the information provided.

**ASSUMPTIONS AND METHODOLOGY:**

The cost estimates of the System's Actuary are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2015 actuarial valuations. Significant membership and financial statistics, assumptions, and methods are shown in the following tables:

Membership Statistics (as of 12/31/2015 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>FRSWPF</u>
Active Members				
Count	305,291	124,974	561	25,526
General Fund Compensation	\$10,185M		\$70M	
Valuation Compensation (Total)	\$13,897M	\$5,869M	\$70M	Not applicable
Average Age	45	44	55	39
Average Service	10.7	10.2	12.9	10.7
Inactive Members				
Count	143,214	59,289	45	17,295

Retired Members				
Count	201,522	63,110	647	13,463
Annual Benefits	\$4,202M	\$1,182M	\$40M	\$27M
Average Age	71	68	72	68
New Retirees During 2016	11,100	4,100	20	800

Financial Statistics (as of 12/31/2015 unless otherwise noted, M = millions)				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>FRSWPF</u>
Accrued Liability (AL)	\$71,522M	\$24,360M	\$616M	\$441M
Actuarial Value of Assets (AVA)	\$66,169M	\$23,649M	\$550M	\$393M
Market Value of Assets (MVA)	\$62,669M	\$22,404M	\$521M	\$373M
Unfunded Accrued Liability (AL - AVA)	\$5,353M	\$711M	\$66M	\$47M
Funded Status (AVA / AL)	93%	97%	89%	89%
Required Employer Contribution for FY 2017-18 (as % of pay)	10.33%	7.50% (non-LEO)	30.23%	\$18.0M
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 7.75%	3.50% - 5.50%	Not applicable
Assumed Rate of Investment Return: 7.25%				
Cost Method: Entry Age Normal				
Amortization: 12 year, closed, flat dollar				
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015				

Benefit Provisions				
	<u>TSERS</u>	<u>LGERS</u>	<u>CJRS</u>	<u>FRSWPF</u>
Formula	1.82% x Service x 4 Year Avg Pay	1.85% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay	\$170 per month
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5	55/20
Employee contribution (as % of pay)	6%	6%	6%	\$10 per month

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from David Vanderweide.

**SOURCES OF DATA:**

Conduent, "Retirement Admin. Changes Act of 2017 – House Bill 183", March 10, 2017, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 183: An Act to Make Clarifying and Administrative Changes to the TSERS, LGERS, and Related Statutes", March 7, 2017, original of which is on file in the General Assembly's Fiscal Research Division.

**TECHNICAL CONSIDERATIONS:**

**FISCAL RESEARCH DIVISION: (919) 733-4910.**

The above information is provided in accordance with North Carolina General Statute 120-114 and applicable rules of the North Carolina Senate and House of Representatives.

**PREPARED BY:** David Vanderweide

**APPROVED BY:**

Mark Trogdon, Director  
Fiscal Research Division

**DATE:** March 13, 2017



**Signed Copy Located in the NCGA Principal Clerk's Offices**